

## TOPIC: Why should we care about “macroeconomic policies”?

**Conceptual rating:** [BASIC to INTERMEDIATE level](#)

**Suggested module objectives:**

- 1) establish an analytical foundation for deeper analysis by placing a discussion of macroeconomic policies inside a development framework.
- 2) relate theoretical discussion to daily lives of audience in order to demonstrate relevance and cultivate the audience’s interest and confidence for further learning.

**Key concepts:**

- 1) Economies are social and political constructions.
- 2) Economic policies are the means to an end, not an end in themselves. Political and social power dynamics determine those ends at national and international levels. There is a growing global consensus that economic policies should promote human welfare and ecological sustainability, i.e. sustainable, equitable development.
- 3) Types and functions of macroeconomic policies.

**Cross references:**

- **Link with Module 3:** Gender and macroeconomics. Use Module 3 to help unpack the assumptions behind the theory and feminist critique of those assumptions.
- **Link with Module 13:** The IFI rationale for and consequences for not using feminist gendered macroeconomic policies. See Option A which outlines a more extensive critique of the assumptions than Module 3. If you want to focus on the IFIs, select Option B and use it to launch a more historical, intellectual history of how the World Bank approach to gender has evolved.
- **Link with Module 11:** The importance of the IFIs’ to people’s lives. This module looks at macroeconomic policy from a historical and practical point of view in terms of the impact of IFI involvement in various countries.

**Time required:** roughly 60 minutes

**Suggested methodology:** Large group DISCUSSION. BRAINSTORM. Facilitator supplies information where there are gaps and it cannot be derived inductively from the group.

**Relevant readings:**

- One page handout, “What is Macroeconomic Policy?” by Pamela Sparr.
- Goodwin, N., Harris, JM, and Nelson, JA, “Macroeconomic Activity In Context”, Tufts University, 2007.
- Singer, Hans, “What Keynes and Keynesianism can teach us about less developed countries”

*The following selections are recommended if you are going to gear this module for an intermediate-to-advanced level of discussion, or if the facilitator generally would like a greater degree of confidence and background knowledge.*

- The first half of Janet Stotsky’s powerpoint is helpful for establishing the IMF’s goals for various macroeconomic policies.
- The Alexander and Baden glossary of macroeconomic terms provides more detailed analysis of key terms. This works best if the facilitator already knows the basics of economic theory and wants to explore particular points in more detail. It would recommend reading it selectively as the article is so comprehensive, it may be a bit daunting for people who do not have a sense of overall neo-classical economic theory.
- The facilitator might want to refer to a copy of a standard macroeconomic textbook, some of the writings of Nobel prize-winning economist Amartya Sen, or the background papers on fiscal, monetary and financial policies that appear in [www.undp-povertycentre.org/ep.htm](http://www.undp-povertycentre.org/ep.htm). This site includes some country case studies.

**Preparation and supplies needed:**

- Newsprint pad/flip chart paper and markers to record certain parts of the discussion
- Review suggested readings.

**Suggested content to be covered:**

- Economic policies are forged in the crucible of political and economic power dynamics within and among countries and global international institutions. They are social and political constructions, informed by certain values, political philosophies, and economic theories. The economy is a human creation, not something “scientific”, mysterious or immutable as may seem to be the case.

- What are the ultimate goals of economic policies? The goals are up for national and international debate. (The extent to which external voices influence national goal setting depends on any individual country's political and economic place in the world.) Many people feel that the purpose of any type of economic policy should be to promote human welfare and ecological sustainability, i.e. promote equitable, just, and sustainable development. The point here is that we can treat economic policies as a means to an end, not the end in themselves. Thus, economic policies should be formulated, evaluated, and revised, based on their ability to meet whatever society says are the desired ends. (Note: whether this actually occurs depends a lot on the political environment.)
- "Macroeconomics" – "big picture" or "large scale" economic theory and policies deal with national economies. However, they can and do have international dimensions to them. These exist in contrast with "microeconomic" theory and policies, which focus on the household and individual firms.
- Note to the facilitator: the use of both "macro" and "micro" terms can imply an analysis rooted in neo-classical (neo-liberal) economic theory, as some other schools of economic thought do not necessarily make the same initial analytical distinctions.
- Macroeconomic policies are used by national governments to shape their national economy.
- In countries where economic policies are informed by neo-classical ("neo-liberal") or Keynesian economic theories, the focus is on achieving certain price levels (as measured by inflation rates), growth rates (customarily measured by GDP or GNP), and unemployment rates. This is done by attempting to manipulate: consumption, investment, savings, imports, exports and government budgets.
- The two major components of "macroeconomic" policies are: **fiscal** policy and **monetary** policy.
- **Fiscal policy**: affects national income through how the government manages its budget. There are two sides to the budget ledger. One side is revenues, and policies that affect revenue generation, while the other side is expenditures.
- **Revenues** can be one-time measures, like the sale of government property, or recurrent, like taxes. Planning is easier with stable, ongoing sources of funding. The other side of the ledger is **expenditures**. Expenditures can be one-time measures (on the "capital account" for infrastructure) or recurrent (like old age pensions).

*Note to facilitators: In order to provide a "digestible" amount of material for a basic level of discussion, a discussion of deficits and deficit-financing is not included in this module.*

- **Monetary policy:** affects the demand and supply of money. General monetary policy tools vary in importance and implementation details by country. In developing countries, the primary tools are open market operations and the exchange rate.
  - **Open market operations:** the Central Bank (in the U.S., this is the Federal Reserve) buys and sells government securities. This will affect interest rates in the country.
  - **Discount rate policy:** the interest rate charged banks to borrow from the Central Bank.
  - **Reserve requirements:** percent of deposits that must be held in reserve to ensure the liquidity of the banking system. This is a “blunt” instrument, so is very rarely used.
  - **Exchange rate:** the rate by which the domestic currency trades for foreign currencies.

**Description of how to conduct the session:**

1. Welcome by host group(s) and introduction of facilitator(s); provide any needed logistical information; outline goals for session.
2. Depending on size of group, invite participants to introduce themselves, share an expectation or question they bring. (Record expectations or questions on newsprint, if you are doing this step, and refer to them throughout the session.)
3. **Large group DISCUSSION.** Invite the group to **BRAINSTORM** major concerns they have for themselves, their families, their communities, or their country. Write these on newsprint. Do this for a short time, about 3-5 minutes.
4. Pick a few of the concerns that are obviously affected by macroeconomic policies (e.g. school user fees; lack of health care, affordable housing, inflation, jobs/unemployment, environmental destruction – particularly as it might apply to an export-oriented industry, for example; high foreign debt). Circle these on the list.
5. Ask the audience to **BRAINSTORM** what some of the causes or contributing factors are behind each concern. (Record this on newsprint too.) Take one at a time, and as you talk about it with the group, if the group does not mention it, elaborate as necessary how the particular problem or concern is an outcome (at least in part) of particular macroeconomic policy(ies). 15 –20 minutes. By the end of this step, the group should have inductively defined “macroeconomic” policies.
6. Synthesize the discussion and summarize the main points generated from the discussion re: the definition of macroeconomic policies and how they work in basic terms. Fill in missing pieces of fact and context as needed, based on the suggested points listed above. If it has not already come up in

- discussion, this is the time to make the points about economies and economic policy serving human needs and promoting environmental sustainability, rather than the other way around. Answer any questions that emerge, or that are listed on the newsprint generated when people listed expectations or questions at the beginning of the session. (15-30 minutes)
7. Close the session underscoring three points: a) the relevance of macroeconomic policies to the hopes and concerns of the audience; b) the audience's ability to grasp the basics of the policies; and, c) how important it is that they participate in shaping the economic policy decisions in their country.
  8. If this is part of a larger economic literacy effort, link this session to the next one. Provide logistical details related to the next session, as appropriate. Thank the audience for their participation.

**Ideas for alternative methodologies/modification of the level of discussion:**

- **COLLAGE:** For any level audience, bring a variety of newspapers and news magazines to the session. Have people work in small groups to create collages of headlines, photos, and maybe short segments of analysis related to one or more macroeconomic policies.

For a basic level discussion, make the collages AFTER a discussion on what participants think the goals of their national economy should be, and a brief lecture introducing the concept of macroeconomics and the major policy categories. This is a way for the participants to process and assimilate the information they've heard. Once finished, each small group could be invited to talk about what they produced with the large group.

For an intermediate level audience already familiar with the basic concepts, participants could make collages as a launching pad for a discussion and/or lecture discussing the common goals of such policies and mechanics of their implementation.

- For an intermediate-to-advanced audience, include a **DISCUSSION** of deficits and deficit-financing (domestic and foreign borrowing). This could include **ROLE PLAYS** illustrating the process by which a government borrows domestically or through foreign sources, and what the possible effects of those choices are for various segments of the country's population.
- **DISCUSSION:** For an intermediate-to-advanced audience, include a more detailed discussion of the goals of macroeconomic policy and the "Washington Consensus" re: inflation, growth, export-orientation, etc.

**Some useful organizations or websites related to this topic:**

- For handouts or short back-ground readings on various macroeconomic topics, check out the **Center for Popular Economics** at <http://populareconomics.org>.
- For articles and lectures (some in Spanish; primarily in English), on macroeconomic, international, trade and other relevant topics from a basic to more detailed and sophisticated analysis, check out the “issues” tab of the **Center for Economic Policy Research** website at <http://www.cepr.net>.
- **Focus on the Global South**, <http://www.focusweb.org>, has articles in a variety of languages. Their strength is in the area of globalization and trade issues, critiquing existing policies and offering alternatives.
- **Third World Network**, <http://www.twinside.org.sg>, offers analyses of various topics in English. Check out their “issues” tab, as well as their magazine “Third World Economics” and the short essays written by Martin Khor under “Global Economic Trends” series in the “publications” tab.
- If you would like to use or review interactive teaching materials developed by the **World Bank**, check out their resources under the “Learning” tab at [www.worldbank.org](http://www.worldbank.org).